Public Service Commission of Wisconsin Rebuttal Testimony of Candice C. Spanjar Gas and Energy Division

Wisconsin Energy Corporation Docket 9400-YO-100

February 19, 2015

1	Q.	Please state your name, business address, and occupation.
2	A.	My name is Candice C. Spanjar. My business address is 610 North Whitney Way,
3		Madison, Wisconsin. I am employed by the Public Service Commission of Wisconsin
4		(Commission) as an Audit Manager in the Gas and Energy Division.
5	Q.	Please state your educational background.
6	A.	I graduated from UW-Madison in 1984, receiving a Bachelor of Business Administration
7		Degree with a major in accounting. I am a Certified Public Accountant in the state of
8		Wisconsin. I have been employed as an auditor by the Commission since 1986. I have
9		previously presented exhibits and testimony in numerous formal proceedings before the
10		Commission involving electric, natural gas, and water utilities.
11	Q.	Did you previously file direct testimony in this proceeding?
12	A.	No.
13	Q.	What is the purpose of your rebuttal testimony?
14	A.	The purpose of my rebuttal testimony is to respond to the supplemental direct testimony
15		and exhibits of Wisconsin Energy Corporation (WEC) witnesses Scott Lauber, regarding
16		the recent agreement for merger settlement in Michigan, whereby among the terms of the
17		settlement, certain Wisconsin Electric Power Company (WEPCO) and Wisconsin Public
18		Service Corporation (WPSC) assets in the Upper Peninsula of Michigan are to be sold to
19		the Upper Peninsula Power Company (UPPCO), a Michigan utility, contemporaneously

1		with the closing of the acquisition of Integrys Energy Group, Inc. (Integrys Energy) by
2		WEC in Michigan.
3	Q.	Do you have any general comments about the transfer and sale of these assets in the
4		Upper Peninsula of Michigan to UPPCO?
5	A.	Yes. I agree with Mr. Lauber that this is not the docket in which the Commission will
6		decide whether to approve the proposed sale of assets to UPPCO. However, I do believe
7		that the Commission should be aware of a number of issues surrounding this transaction
8		that could have effect on ratepayers in Wisconsin. It is important to understand the
9		effects of the UPPCO transaction on Wisconsin in order to make an informed decision on
10		the acquisition approval that is the subject of this proceeding.
11	Q.	What is the first issue you would like to address?
12	A.	The Agreement for Merger Settlement in ExWEC-Lauber-5, dated January 12, 2015,
13		describes the primary objective of the agreement as including "the creation of a market
14		structure in which PIPP is transferred to and owned by UPPCO and operated primarily to
15		provide service to that utility's retail customers (including the mines1); and the
16		termination of the existing SSR ² agreement and expenses, effective no later than upon
17		transfer." Both WEPCO and WPSC must also transfer their distribution assets,
18		customers, and business to UPPCO, and the mines must become full-requirements
19		service customers of UPPCO pursuant to long-term contracts. If the mines return to full

 $^{^{\}rm 1}$ Tilden Mining Company L.C. and Empire Iron Mining Partners (the mines). $^{\rm 2}$ System Supply Resource (SSR).

requirements utility service prior to the sale of WEPCO's business to UPPCO, WEP	CO
agrees to provide such full requirements service to the mines. ³	

Mr. Lauber describes the agreement as being further formalized in a separate Settlement Agreement that was submitted to the Michigan Public Service Commission (MPSC) on January 30, 2015, in docket Case No. U-17682, that is included in Ex.-WEC-Lauber-6. Upon review of this exhibit, I noted that the signatory of the Cloverland Electric Cooperative (Cloverland) was not obtained on this document. In addition, on February 2, 2015, Cloverland filed its answer opposing, in part, the motion to amend the case schedule in Michigan docket Case No. U-17682 in the event that contested settlement proceedings occur in which it stated that "Cloverland believes that We Energies breached a contract with Cloverland in order to reach the agreement for the sale of WEPCO's distribution assets" and that it "had the undisputable contractual rights to negotiate for the purchase of WEPCO's distribution assets and Cloverland contends that We Energies breached the contract". If there are any costs borne by the WEC or WEPCO to obtain the agreement of Cloverland to the WEC/Integrys Energy merger approval in Michigan, I believe that such costs should be considered transaction costs that would be incurred in connection with the execution of the acquisition approval. As discussed in the direct testimony of Jodee Bartels (Direct-PSC-Bartels, pages 5-6), transaction costs should not be passed on the Wisconsin utility customers in any way. If any such costs are incurred by WEC, they should remain at the holding company level and not allocated to the utilities. If any such costs are incurred by WEPCO, they should be recorded as nonutility expenses.

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³ On February 2, 2015, the mines filed a motion in FERC Docket Nos. ER14-1242-000, ER141243-000, ER142860-000, ER14-2862-000 and ER14-2952-000 advising FERC that effective February 1, 2015, the Mines returned to bundled distribution and power supply electric retail service from WEPCO. The Mines claimed that WEPCO's justification for the PIPP SSR agreements no longer exists and moved that the FERC should terminate the second PIPP SSR agreement effective no later than February 1, 2015.

1	Q.	Please continue.
2	A.	Next, I would like to address the idea that the proposed transaction with UPPCO will
3		benefit WEPCO's Wisconsin retail customers. First, on page 5 of his supplemental direct
4		testimony, Mr. Lauber indicates that there will be savings to Wisconsin customers as a
5		result of the applicant agreeing to defer any margin revenues that WEPCO receives from
6		the mines in 2015. The Commission may want to take action separately on this deferral to
7		ensure that all of the appropriate additional revenues are credited to Wisconsin ratepayers.
8		Mr. Lauber next identifies being passed on to customers as a result of
9		, which is laid out in Ex
10		WEC-Lauber-8c Schedule 2. However, Mr. Lauber states on page 12c of his supplemental
11		direct testimony that, consistent with a situation where a generating plant is retired, WEPCO
12		intends to seek recovery of the Wisconsin jurisdictional portion of the unrecovered book
13		value of PIPP from Wisconsin ratepayers.
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19		It will also be
20		important for the Commission to consider to what extent the sale of these assets was
21		influenced by WEPCO's desire to obtain approval of the proposed acquisition in Michigan.
22		Any portion of the deal that does not stand alone as a benefit to Wisconsin ratepayers should
23		be considered a transaction cost and not be recoverable in Wisconsin.

1 Q. Has the company identified any benefits of the UPPCO transaction to WPSC retail 2 customers? No. Since the terms of the agreement have not been finalized to date, it is not possible to 3 A. 4 identify such benefits, if any. WEC expects to be able to provide more detail in a future 5 buy/sell docket pursuant to Wis. Stat. §196.80. 6 Q. Has the company supplied any preliminary information on such benefits? 7 In response to data requests, WEC stated that the estimated A. on the sale of and that "The Company does not 8 WPSC's Michigan distribution assets is 9 intend to ask that the gain or loss be reflected in future Wisconsin revenue requirements."5 10 Do you have any comments regarding these responses? 11 Q. 12 A. WEC's statement that it does not propose to ask that the gain or loss from the sale of the 13 WPSC Michigan operations be reflected in future Wisconsin revenue requirements does 14 not appear to be consistent with WEC's proposal to recover from Wisconsin customers 15 the gains and losses from the sale of WEPCO's Michigan operations. Do you agree that the applicant's proposal to seek recovery of the unrecovered book 16 Q. value of PIPP from Wisconsin ratepayers is consistent with a situation where a generating 17 18 plant is retired? 19 No. While the specifics of the UPPCO transaction will be evaluated in a future A. 20 proceeding before the Commission, it is important for the Commission to have an 21 understanding of the potential effect of this transaction on Wisconsin ratepayers as part of

⁴ WEC's response to data request PSC-25.03 (PSC REF#: 231805 CONFIDENTIAL). This amount is subject to change based on negotiations, and there will likely be other costs and benefits identified. For example, WEC has yet to respond to data request PSC-25.10, regarding the net effect on jurisdictional allocations, and PSC-25.21, requesting a summary of estimated overall impact on WPSC Wisconsin retail revenue requirement.

⁵ WEC's response to data request PSC-25.09 (PSC REF#:231795)

1		its consideration in this docket. There is not a set Commission practice regarding
2		recoverability when plant is retired. The cases that I know of in which plant was retired
3		and the utility was allowed to recover costs related to the net book value of retired plant
4		was when the retirement was due to new environmental regulations such that it was no
5		longer economically efficient to continue operating the plant. While PIPP may cease to
6		operate in the future due to impending environmental requirements, at the current time
7		the PIPP assets are proposed to be transferred to another operator (UPPCO) with
8		operations currently anticipated to continue until 2020. Due to all the uncertainties of the
9		PIPP transfer at this time and the short notice of the proposed transaction, it is more
10		appropriate to study the validity of such a transfer in a buy/sell docket in which a
11		valuation could be conducted and all of the relevant terms could be reviewed.
12	Q.	
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5	Q.	Please continue.
6	A.	On page 5 of supplemental direct testimony, Mr. Lauber also indicates that savings of
7		approximately for PIPP in 2015 and 2016 will be escrowed for return to
8		Wisconsin customers (representing in avoided carrying costs on inventories,
9		taxes other than income taxes and operations and maintenance costs offset by
10		approximately of annual slice of system costs that will be allocated to
11		Wisconsin. This statement apparently presumes that the Commission has already
12		authorized escrow treatment for PIPP-related carrying costs on inventories, taxes other than
13		income taxes and operations and maintenance costs; I am not aware of such Commission
14		authorization although it could authorize such escrow treatment in this proceeding if
15		deemed appropriate. In addition, while there may be savings due to avoided PIPP
16		expenses, these cost savings will be offset by the SSR revenue payments net of WEPCO's
17		portion of the SSR cost that will cease to occur.
18	Q.	What if anything should the Commission do in this proceeding regarding SSR revenues
19		and payments?
20	A.	As stated at the beginning of my testimony, the Agreement for Merger Settlement in
21		ExWEC-Lauber-5 describes the primary objective of the agreement as including "the
22		creation of a market structure in which PIPP is transferred to and owned by UPPCO and
23		operated primarily to provide service to that utility's retail customers (including the

1		mines); and the termination of the existing SSR agreement and expenses, effective no
2		later than upon such transfer." With the recent announcement that the mines are
3		returning to bundled distribution and power supply retail electric service from WEPCO,
4		there is now a question as to whether the SSR revenue payments to WEPCO could stop at
5		an earlier date. In addition, on February 17, 2015, WEPCO notified Midcontinent
6		Independent System Operator, Inc. (MISO) that it sought to rescind its Attachment Y
7		Notice of retirement for PIPP effective February 1, 2015. On February 18, 2015, MISO
8		filed a letter with the Federal Energy Regulatory Commission (FERC) requesting to
9		cancel Schedule 43G in connection with the end to arrangements pursuant to the
10		WEPCO-related SSR agreement for PIPP. This will presumably result in the SSR
11		payments to WEPCO ceasing as of February 1, 2015. Whatever the case is as to when
12		SSR payments to WEPCO would stop, if there is any chance that SSR payments could
13		come back to a future owner of PIPP, I believe that the Commission could determine as a
14		condition of the WEC/Integrys Energy acquisition approval in this proceeding that any
15		future SSR costs should remain at the holding company level and not pushed down to the
16		utilities under WEC, or at a minimum that the ratepayers of the utilities under WEC
17		should not bear such costs.
18	Q.	Do you have any additional comments?
19	A.	Yes, I do. My lack of response to any testimony should not be construed to mean that I
20		agree with any particular position by any witness.
21	Q.	Does that conclude your rebuttal testimony?
22	A.	Yes, it does.

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